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**Subcommittee on Road Traffic (Public Service Vehicles)
(Amendment) Regulation 2013**

**Background brief
prepared by the Legislative Council Secretariat**

Purpose

This paper provides background information on the fare adjustment for hiring the urban, the New Territories ("NT") and Lantau taxis, and gives a brief account of the views and concerns expressed by the Panel on Transport ("the Panel") when consulted on the taxi fare adjustment applications.

Background

Mechanism and consideration for taxi fare adjustment

2. Taxi fare increase applications are considered by the Administration in accordance with the following guiding principles -
 - (a) the need to ensure the financial viability of taxi operations, taking into consideration changes in revenue and operating costs;
 - (b) the need to maintain an acceptable level of taxi service in terms of taxi availability, passenger waiting time and feedback from passengers;
 - (c) the need to maintain a reasonable differential between taxi fares and those of other public transport modes;

- (d) the likely public acceptability of the proposed fares; and
- (e) taxi fare structure should be "front-loaded" and thereafter on a varying descending scale of incremental charges¹.

3. The scale of fares for the hiring of taxis is specified in Schedule 5 to the Road Traffic (Public Service Vehicles) Regulations (Cap. 374D). Under section 7(1C) of the Road Traffic Ordinance (Cap. 374), the Chief Executive in Council ("CE-in-Council") may make amendment regulation to give effect to adjustment in the fares for the hiring of urban, NT and Lantau taxis. In the course of assessing the taxi fare increase applications, the Administration will take into account the views of the Panel and the Transport Advisory Committee before submitting its recommendations to CE-in-Council.

4. The fares for urban, NT and Lantau taxis were last increased in July 2011 by an average rate of 5.15%, 8.05% and 4.11% respectively. The relevant amendment regulation was tabled at the Council meeting of 18 May 2011. The House Committee did not form a subcommittee to study the related matters.

Members' major concerns on the previous taxi fare increase applications

Fare increase applications in 2012

5. In May 2012, the Panel was consulted on the fare increase applications made by the urban, NT and Lantau taxi trades. Some Panel members pointed out that taxi drivers had long been complaining about the volatility of Liquefied Petroleum Gas prices and supported collection of taxi fuel surcharge to mitigate increase in fuel costs instead of introducing taxi fare increases. These members shared the view expressed by some taxi driver groups that a rentee-driver² might not be able to benefit from the proposed fare increase as it might trigger taxi rental increases by owners and as a result, any income increase that might be derived from the fare adjustments would be offset.

¹ This revised policy on taxi fare structure is recommended by the Transport Advisory Committee in its Report on the Review of Taxi Operation issued on 5 June 2008.

² There are three types of taxi operators, namely, rentee-drivers, owner-drivers and rentor-owners. Rentee-drivers hire taxis from taxi owners. Owner-drivers own and drive the taxis themselves; some also rent their taxis out to rentee-drivers for one shift. Rentor-owners do not drive their taxis but rent them out to rentee-drivers.

6. The Administration however considered that if a fuel surcharge was introduced, passengers would have to bear frequent, unforeseeable and drastic fare adjustments due to short-term or extreme changes in fuel costs. The Administration advised that a taxi fare adjustment was preferable as it was governed by the mechanism enshrined in the relevant legislation and would require the approval of the CE-in-Council. It would be more appropriate for the taxi trade to make use of the existing fare adjustment mechanism instead of a fuel surcharge to reflect the cost increases. The Administration also explained that the fare adjustment mechanism had the benefit of taking into account not only fuel price increase, but also revenue and other cost components, such as changes in repair and maintenance costs. For this purpose, the Government would conduct a comprehensive assessment of the taxi trade's operating conditions.

7. The Transport Department subsequently announced that given the attitude of some taxi associations had changed resulting in divergence on the trades' view on fare increase, the Government would re-consider the fare increase applications after the trades had reached a mainstream view.

Fare increase application in 2013

8. At the meeting of the Executive Council on 24 September 2013, the CE-in-Council approved an increase of \$2 in flagfall and of \$0.1 in the incremental charge after flagfall for the hiring of urban, NT and Lantau taxis, and an increase of \$1 for NT taxis for (a) every article of baggage carried, (b) every animal or bird carried, and (c) every hiring arranged through telephone booking. The fare increase applications from the urban, NT and Lantau taxi trades are made on grounds of rising operating costs, in particular the rising fuel expenses, vehicle maintenance and repair expenses, and insurance premium since the last taxi fare increase in July 2011 as a result of increase in wages (for example, of vehicle mechanics), prices of spare parts and inflation³.

³ As compared to 2011 (July to December) (i.e. the first six months following the last fare increase), the Composite Consumer Price Index ("CCPI") rose by 3.4% in 2012 (whole year) and 6.7% in 2013 (January to March) respectively.

9. The applications from the taxi trades and the approved fare adjustments as set out in the Legislative Council ("LegCo Brief") are as follows -

	Urban Taxi	NT Taxi	Lantau Taxi
	Flagfall charge for the first 2 km or any part thereof		
Existing fare	\$20	\$16.5	\$15
The trade's proposal	\$22 (+\$2)	\$19 (+\$2.5)	\$18 (+\$3)
Government's recommendation	\$22 (+\$2)	\$18.5 (+\$2)	\$17 (+\$2)
	Incremental charge for each 200 m travelled (i.e. per jump) after flagfall		
	2-9 km	2-8 km	2-20 km
Existing fare	\$1.5 per jump	\$1.3 per jump	\$1.3 per jump
The trade's proposal	\$1.6 per jump (+\$0.1)	\$1.4 per jump (+\$0.1)	\$1.4 per jump (+\$0.1)
Government's recommendation	\$1.6 per jump (+\$0.1)	\$1.4 per jump (+\$0.1)	\$1.4 per jump (+\$0.1)
	After 9 km	After 8 km	After 20 km
Existing fare	\$1 per jump	\$1 per jump	\$1.2 per jump
The trade's proposal	No change	No change	No change
Government's recommendation	No change	No change	No change

	Urban Taxi	NT Taxi	Lantau Taxi
Average rate of proposed fare increase under the trade's proposal⁴	7.11%	10.71%	10.63%
Average rate of proposed fare increase under Government's recommendation	7.11%	9.04%	8.83%

Consultation with the Panel

10. The Panel was consulted on 21 June 2013 on the fare adjustment applications by taxi trades. The majority of members supported the proposal to increase the taxi fare in view of the drop of the real income of drivers and owners owing to an increase in the various cost components and inflation. Some members expressed grave concern over the speculation of taxi licences, the price of which had escalated to above \$7 million. Worrying that the increase in taxi fare might further fuel speculation of the taxi licences, certain members expressed that they would not support the fare increase due to the possibility that a rentee-driver might not be able to benefit from the proposed fare increase as it might trigger taxi rental increases by owners. As a result, any income increase that might be derived from the fare adjustments would be offset.

11. Some members called on the Administration to ensure that the increase in taxi fare would bring about a higher income for the drivers. Other members suggested that the Administration should introduce tiered taxi service and allow better equipped taxis to charge a higher fares. This might help increase the income of taxi drivers. Members also raised concern on the ageing problem of taxi drivers because it was observed that not too many young persons were willing to join the trade as a taxi driver due to the limited income and minimal benefits. Other members

⁴ The average rate of fare increase is worked out on the basis of the average meter revenue figures obtained from the taximeter reading surveys conducted by the Transport Department. Each rate is derived from summing up the changes due to the relevant fare increase in every trip length segment of the trip length distribution spectrum of a taxi of the type concerned, on the assumption that there is no change in the number of trips and in the trip distribution of the taxi after the fare increase. Even for the same amount of flagfall increase, the average rate of fare increase for the three types of taxis would be different because of the difference in their respective trip length distributions.

suggested that the Administration could consider the introduction of low-rent taxi licences as in the case of low-cost housing provided for the lower income families; and urged the Administration to increase the number of Liquefied Petroleum Gas refilling station to shorten the waiting time.

12. The Panel also revisited the option of introducing a fuel surcharge as a means to mitigate increase in fuel costs instead of introducing taxi fare increases. The Administration advised members that it would study overseas experiences of implementing and not implementing a fuel surcharge, and see whether and how such experiences would be of relevance to the situation in Hong Kong. The Administration understood that preference of the trade was for the Government to first process the taxi fare increase applications according to the existing mechanism.

Latest development

13. To give effect to the approved fare adjustments for the urban, NT and Lantau taxis with effect from 8 December 2013, the Road Traffic (Public Service Vehicles) (Amendment) Regulation 2013 ("the Amendment Regulation 2013") was gazetted on 11 October 2013. The main provisions of the Amendment Regulation are set out in the LegCo Brief. The Amendment Regulation 2013 was tabled at the LegCo on 16 October 2013. At the meeting of the House Committee held on 18 October 2013, Members agreed to form a subcommittee to study the Amendment Regulation 2013.

Relevant papers

14. A list of relevant papers is in the **Appendix**.

**Subcommittee on Road Traffic (Public Service Vehicles)
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List of relevant papers

Date of meeting	Committee/ Meeting	Minutes/Paper	LC Paper No.
24 May 2012	Panel on Transport	Papers for the meeting	http://www.legco.gov.hk/yr11-12/english/panels/tp/agenda/tp20120524.htm
		Minutes of meeting	CB(1)2511/11-12 http://www.legco.gov.hk/yr11-12/english/panels/tp/minutes/tp20120524.pdf
24 May 2012	-	Press release on the Transport Department's response on taxi fare increase applications	http://www.td.gov.hk/en/publications_and_press_releases/press_releases/transport_department/index_id_1884.html
21 June 2013	Panel on Transport	Administration's paper on taxi fare increase applications	CB(1)1298/12-13(03) http://www.legco.gov.hk/yr12-13/english/panels/tp/papers/tp0621cb1-1298-3-e.pdf
		Background brief on taxi fare adjustments prepared by the Legislative Council Secretariat	CB(1)1298/12-13(04) http://www.legco.gov.hk/yr12-13/english/panels/tp/papers/tp0621cb1-1298-4-e.pdf
24 September 2013	-	Legislative Council Brief on "Taxi Fare Increase Applications"	http://www.legco.gov.hk/yr13-14/english/subleg/brief/151_brf.pdf